

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING)
OF B.T.U. GAS COMPANY, INC.) CASE NO. 2012-00538

ORDER

On October 31, 2011, in Case No. 2011-00374,¹ the Commission approved a Gas Cost Recovery (“GCR”) clause for B.T.U. Gas Company (“BTU”) providing for the quarterly adjustment of BTU’s rates to reflect its most current wholesale gas supply cost. On June 1, 2012, Kentucky Frontier Gas Company, LLC (“Kentucky Frontier”) acquired the assets of BTU pursuant to the Commission’s approval of the transfer, and adopted BTU’s tariffs.²

On December 6, 2012, BTU filed its GCR to be effective January 1, 2013, and included with its application a Petition for Waiver of GCR Adjustment. BTU filed a revised application on December 11, 2012. BTU requested an interim waiver of the five percent limit for lost gas costs; and a deviation from its GCR tariff and the filing requirements of the GCR tariff because its proposed rate is not calculated based on actual gas costs and standard adjustments. BTU’s proposal is to continue to charge its Expected Gas Cost (“EGC”) rate of \$8.00 per Mcf, which was approved in Orders to its

¹ Case No. 2011-00374, Filing of B.T.U. Gas Company, Inc. for Approval of a Gas Cost Recovery Tariff (Ky. PSC Oct. 31, 2011).

² Case No. 2012-00099, Application of Kentucky Frontier Gas, LLC for Approval of Transfer of Assets of the Former B.T.U. Gas Company and Approval of Financing of Acquisition (Ky. PSC June 1, 2012).

previous GCA cases, and to calculate its Actual Adjustment for July through September 2012 using actual sales volumes rather than limiting Lost & Unaccounted for (“L&U”) volumes to five percent.

In support of its request for waiver of the five percent limit on gas cost losses, BTU’s application provided information concerning its L&U gas, which remains “unacceptably high” despite Kentucky Frontier’s efforts to eliminate it. According to BTU’s application, Kentucky Frontier has installed meters on numerous previously unmetered connections and had a block valve installed in the southern area of the BTU system, which reduced the L&U in that area by approximately 15 Mcf per day. It reports that Kentucky Frontier is working with customers who have previously not allowed utility personnel on their property to eliminate losses, and is attempting to eliminate unmetered connections related to right of way claims which are the subject of ongoing litigation in Magoffin County. Despite the fact that its losses have been reduced significantly by its efforts to eliminate L&U gas and theft, Kentucky Frontier maintains that its losses remain unacceptably high; Kentucky Frontier reports that for July, August and September its losses were 81 percent, 38 percent, and 34 percent respectively. Kentucky Frontier estimates the losses will remain well over the five percent ordinarily flowed through the GCR mechanism.

BTU provided with its GCR application, for example purposes only, a sample calculation of its EGC including its actual 12 month 57.33 percent line loss. Correcting BTU’s sample calculation to include actual purchases would produce an EGC of \$10.8925 per Mcf. For informational purposes, BTU also provided an EGC calculation based on the standard methodology of excluding all L&U volumes over five percent,

which results in an EGC of \$4.8919 per Mcf. Similarly, BTU provided an AA calculation for informational purposes only which showed the effect of limiting gas cost recovery through the AA to five percent L&U volumes. Due to the actual line losses experienced July through September 2012, excluding losses in excess of five percent would result in a current quarter AA of (\$.1645) per Mcf. BTU states that if it is not able to recover the additional gas cost represented by the L&U volumes, there will be a negative impact on Kentucky Frontier's financial condition, and may threaten its ability to pay gas supply cost and to supply gas to BTU's customers.

BTU is proposing to deviate from the GCR tariff in its calculation and from the filing requirements of its GCR by continuing to use an \$8.00 per Mcf EGC rate for the quarter beginning January 1, 2013. The \$8.00 gas cost represents an average L&U of 26 percent. The deviation from limiting L&U to five percent is reflected in the AA calculation as well, which is calculated to recover all of its gas cost for the months July through September 2012, rather than limiting gas cost losses to five percent. BTU states that approval of the requested GCR methodology will allow Kentucky Frontier to immediately begin to recover a greater portion of its actual gas cost from prior months' under-billings over the next several quarters.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. BTU's request for a deviation from its GCR tariff in continuing its \$8.00 per Mcf EGC is not unreasonable, given the extreme nature of the BTU system's continuing losses, and Kentucky Frontier's efforts to install meters for previously unmetered individuals, to locate improper interconnections with the BTU system, and to repair

leaks. Any future request for deviation from BTU's GCR tariff should include information concerning Kentucky Frontier's efforts to decrease the incidence of gas loss on the BTU system.

2. BTU's request to recover its actual cost of gas through the AA as opposed to reducing gas cost recovery by imposing a five percent L&U limit is reasonable and should be approved. BTU calculated its proposed \$.0845 per Mcf current AA with an incorrect 12-month sales figure. Correcting this produces a current quarter AA of \$.0839 per Mcf. BTU's total AA is \$1.2788 per Mcf, an increase of \$.0839 per Mcf from the previous total AA of \$1.1949 per Mcf.

3. BTU's GCR is \$9.2788 per Mcf, which represents an increase of \$.0839 per Mcf from its previous gas cost rate of \$9.1949 per Mcf.

IT IS THEREFORE ORDERED that:

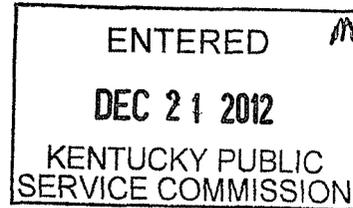
1. BTU shall be granted an interim waiver of the five percent limit for L&U gas costs.

2. BTU shall be granted a deviation from its GCR tariff and its filing requirements and standard methodologies as they pertain to the calculation of the EGC and the AA, as specifically outlined herein.

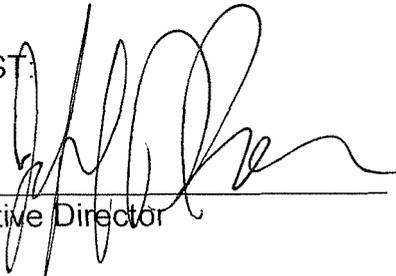
3. In any future request for similar deviations, BTU shall include sufficient information for the Commission to determine its progress in addressing excessive gas losses. The rates in the Appendix, attached hereto and incorporated herein, are approved for billing for service rendered on and after January 5, 2013. BTU did not provide the 30 days' notice required for its increase in rates to be effective January 1, 2013.

4. Within 20 days of the date of this Order, BTU shall file its revised tariff sheets with this Commission setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00538 DATED DEC 21 2012

The following rates and charges are prescribed for the customers in the area formerly served by B.T.U. Gas Company, Inc.. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE SCHEDULES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total Rate</u>
First Mcf (Minimum Bill)	\$ 3.9000	\$9.2788	\$13.1788
Over 1 Mcf	\$ 2.9700	\$9.2788	\$12.2488

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